

MFs prove better than Ulips to save for a child

Insurance plans take care of risks, charges of mutual funds low

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PLANNING and saving for your child's future is one of the most important decisions. While, the investor is spoilt for choices, he must take decisions based on his risk perceptions, time for payout and corpus target. Insurance companies are very aggressive in child plans portfolio and see it as the fastest-growing product category.

Life insurance companies such as Aviva Life, SBI Life and Bharti Axa Life have recently made additions to strengthen their existing children's savings plan portfolio.

Aviva life Insurance sees children's education as one of the important growth drivers in future. "Education and child plan have been our focus. Aviva expects this category to contribute to 20 per cent of its growth," said TR Ramachandran, managing director, Aviva Life Insurance.

Life insurance companies offer both traditional and unit linked (Ulip) child plans. While in Ulips decision to invest and risk lies with investor, in traditional plans companies decide on investment and give out maturity value and bonus to the customer.

Traditional products give returns in the range of five to six per cent, while returns on Ulip are higher over a long term period. Mutual funds too have child plan specific funds aimed at



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creating a corpus to funding goals such as children's higher education or marriage.

How do these plans work?

In child insurance plans, premium is accumulated over the years and the target corpus is ready at the time of your child going to college or higher education. In case of death of policyholder (parents of the child), the insurance company pays rest of premium.

Typically, child plans start from the age of 7-8 years. Read the fine print carefully to find when the scheme really starts. Also time the policy properly to get the payouts at the right time. Ideally, money should

be handed out at important milestones in a child's educational and career graph.

Companies are coming out with innovative child plans. DLF Pramerica Life Insurance recently launched an insurance plans that protects child's school fees during the term of the plan. The monthly premium is as low as Rs 225. Parents have the flexibility to choose the benefit amount they wish to protect. In case of death, this benefit is paid out monthly. Some companies also allow you to attach low cost riders such as disability.

However, insurance child plans are still expensive, even after the new guidelines.

Saibal Ghosh, chief investment officer of Aegon Religare Life Insurance, said insurance is a long-term product, over a 5-10 year period, child plans have given returns at par with mutual funds. As the charges are front-loaded, one shouldn't compare returns in one or two year period.

Insurance child plans or mutual fund child plans:

Many mutual fund houses such as HDFC Mutual Fund, UTI Mutual Fund, **Tata Mutual Fund**, ICICI Prudential and Franklin Templeton Asset Management are offering these schemes.

Charges in mutual funds are very low compared to Ulips. One can buy a term insurance to cover risk of death of parent and buy mutual fund to build the corpus. However, these schemes are structured, either as balanced funds or monthly income plans, which are low on equity. But asset allocation between equity and debt differs from fund to fund.

Certified financial planner Kartik Jhaveri said, "Child plan by mutual fund is a better option as there are no entry or exit charges. Long-term child plans by mutual funds have given a compounded return of 15 per cent. Parents investing for child's future financial needs can also look at diversified mutual funds."